

FRANCE

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998
<i>Income, Production and Employment: 1/</i>			
Nominal GDP	1,539	1,392	1,430
Real GDP Growth	1.6	2.3	3.1
GDP by Sector: 2/			
Agriculture	36	31	N/A
Manufacturing	402	365	N/A
Services	833	931	N/A
Government and Non-Profit Services	269	242	N/A
Per Capita GDP (US\$)	26,362	23,761	24,544
Labor Force	25,584	25,642	N/A
Unemployment Rate	12.3	12.5	11.8
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M3) 3/	-3.4	-0.6	3.0
Consumer Price Inflation	2.0	1.2	0.9
Exchange Rate (FF/US\$ annual average)	5.1	5.8	5.9
<i>Balance of Payments and Trade:</i>			
Total Exports FOB 4/	289	290	302
Exports to U.S. 4/	17	19	22
Total Imports CIF 4/	273	261	276
Imports from U.S. 4/	23	23	25
Trade Balance CIF/FOB	17	29	27
Balance with U.S. 4/	-5	-5	-3
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	4.1	3.0	2.9
Current Account 5/	21	39	35
Surplus/GDP (pct)	1.3	2.8	2.4
Debt Service Payments (pct of GDP)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves 6/	59	57	69
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

- 1/ Embassy estimates based on published French government data unless otherwise indicated.
- 2/ GDP excludes value added tax and other taxes.
- 3/ 1998 figure reflects M3 as of August.
- 4/ 1998 estimate based on eight months.
- 5/ 1998 estimate based on eight months.
- 6/ 1998 figure reflects reserves as of September.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual gross domestic product about one-fifth that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the tenth largest trading partner of the United States and the third largest in Europe (after the United Kingdom and Germany). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 10.8 percent to \$16.0 billion in 1997, while merchandise imports from France grew 11.2 percent to \$20.7 billion, again according to Commerce Department data. This resulted in a U.S. merchandise trade deficit with France of about \$5 billion. French trade data shown in the table above account differently for re-exports and transshipments via neighboring European countries. They thus tell a different story: France believes that it had a trade deficit of about \$5 billion with the U.S. in 1997. Trade in services is expanding rapidly. In 1997, it added about \$25 billion more to the total volume of trade between the U.S. and France. The U.S. and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

The annual real GDP growth rate in 1998 should be 3.0 percent, following 2.3 percent in 1997 and 1.6 percent in 1996. Stronger growth was initially led by export sectors, but domestic consumption and investment spending made increasingly important contributions through mid-1998. Growth is expected to decline somewhat in 1999, due to the impact of the global financial crisis that started in Asia on both net exports and domestic demand. Stronger growth has also permitted a reduction in the unemployment rate (from a high of 12.6 percent in late 1997 to 11.7 percent by September 1998) and a continued reduction in the government budget deficit as a share of GDP to below 3.0 percent in 1998.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued tax and government spending reduction, privatization, increasing the flexibility of labor markets, and further deregulation of goods and services sectors.

With exports and imports each accounting for about 30 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis. Despite France's October 1998 withdrawal from negotiations toward a Multilateral Agreement on Investment (MAI) within the OECD, French officials say they are committed to developing a system of rules governing foreign investment.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors both in France and throughout the world.

2. Exchange Rate Policies

As of January 1, 1999, France along with 10 other EU countries, will adopt the euro as its currency and the exchange rate between the franc and the euro will be fixed. Responsibility for exchange rate policy will thereafter be shared between national finance ministries and the European Central Bank. As a member of EMU, France is committed keeping annual public sector deficits below 3 percent of GDP under normal economic circumstances, and keeping total public sector debt below 60 percent of GDP.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in national economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. Yet the government remains deeply involved in the functioning of the economy through national and local budgets, state ownership of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business, particularly payroll and social security taxes, state action does not discriminate against foreign firms or investments, with very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. As a member of the G-10 group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, France's trade policies are determined by European Union agreements and practices. These policies include preferential trade agreements with African, Caribbean, and Pacific countries under the Lome Convention, and agreements with the Maghreb and other countries.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., ostrich, emu and alligator) unless authorized by special derogation. Also, current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

France established a new national policy toward Genetically Modified Organisms (GMOs) in 1998 that will likely restrict both imports and production of certain types of GMO products. French delay in approving American GMO corn in spring and summer 1998 resulted in a delay in EU approvals that cost U.S. producers over \$100 million in sales to the EU. The U.S. is working with France and the European Commission to improve approval processes for GMO products.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. Continuation and growth of a strong French A/V sector is a government priority.

In 1998 the government tried to increase the tax burden on health-related sectors in order to balance the national social security health care budget. Research-based pharmaceutical firms and health equipment firms have been particularly targeted. The U.S. health equipment industry, in particular, is concerned with what it regards as the non-transparent way in which the government reduced reimbursement levels for its products.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. To match U.S. export promotion policies that it regards as highly successful, the French Government has begun examining ways to promote exports more aggressively, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. There are virtually no direct government subsidies to agricultural production. The government offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. The Right of Association: The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

b. The Right to Organize and Bargain Collectively: The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. Prohibition of Forced or Compulsory Labor: French law prohibits antiunion discrimination and forced or compulsory labor.

d. Minimum Age for Employment of Children: With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. Acceptable Conditions of Work: The current minimum wage is FF 40.22 per hour (about \$6.84). Legislation lowering the legal work week from 39 to 35 hours was passed in 1998. Negotiations on implementation have begun and a second law on overtime and other details will be proposed before the reduction takes legal effect starting in 2000. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. Rights in Sectors with U.S. Investment: Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,045
Total Manufacturing	15,887
Food & Kindred Products	3,147
Chemicals & Allied Products	3,446
Primary & Fabricated Metals	1,844
Industrial Machinery and Equipment	2,974
Electric & Electronic Equipment	683
Transportation Equipment	1,080
Other Manufacturing	2,713
Wholesale Trade	2,857
Banking	781
Finance/Insurance/Real Estate	8,996
Services	4,118
Other Industries	930
TOTAL ALL INDUSTRIES	34,615

Source: U.S. Department of Commerce, Bureau of Economic Analysis.